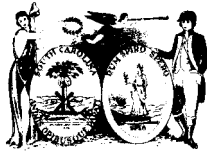


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

September 9, 2002

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post- Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

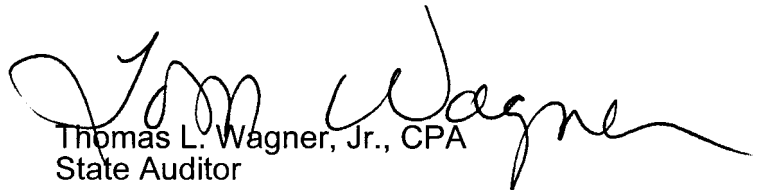
Re: AC# 3-JOL-J9 – GCI Jolley Acres, Inc.
d/b/a Jolley Acres Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**GCI JOLLEY ACRES, INC.
D/B/A JOLLEY ACRES HEALTHCARE CENTER
ORANGEBURG, SOUTH CAROLINA**

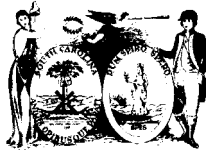
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-JOL-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 30, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

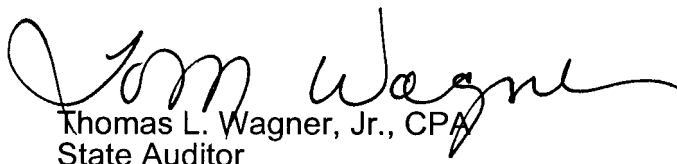
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Jolley Acres, Inc., d/b/a Jolley Acres Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 30, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

JOLLEY ACRES HEALTHCARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-JOL-J9

	10/01/00- <u>09/30/01</u>
Interim Reimbursement Rate (1)	\$86.95
Adjusted Reimbursement Rate	<u>83.06</u>
Decrease in Reimbursement Rate	\$ <u><u>3.89</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

JOLLEY ACRES HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-JOL-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$35.83	\$55.81	
Dietary		8.35	11.39	
Laundry/Housekeeping/Maintenance		<u>6.48</u>	<u>8.99</u>	
Subtotal	<u>\$5.33</u>	50.66	76.19	\$50.66
Administration & Medical Records	<u>\$2.04</u>	<u>11.41</u>	<u>13.45</u>	<u>11.41</u>
Subtotal		62.07	<u>\$89.64</u>	62.07
<u>Costs Not Subject to Standards:</u>				
Utilities		1.85		1.85
Special Services		.74		.74
Medical Supplies & Oxygen		3.58		3.58
Taxes and Insurance		1.85		1.85
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$70.09</u>		70.09
Inflation Factor (3.20%)				2.24
Cost of Capital				7.72
Cost of Capital Limitation				(.55)
Profit Incentive (Maximum 3.5% of Allowable Cost)				2.04
Cost Incentive				5.33
Effect of \$1.75 Cap on Cost/Profit Incentives				(5.62)
Nurse Aide Staffing Add-On 10/01/99				.84
Nurse Aide Staffing Add-On 10/01/00				<u>.97</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$83.06</u>

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$764,639	\$ -	\$ 3,721 (3) 1,224 (3) 6,317 (4)	\$753,377
Dietary	175,951	-	501 (3)	175,450
Laundry	37,332	275 (7)	170 (3) 268 (8)	37,169
Housekeeping	56,502	414 (7)	240 (3) 405 (8)	56,271
Maintenance	43,163	318 (7)	89 (3) 210 (5) 309 (8)	42,873
Administration & Medical Records	284,767	1,025 (3) 6,317 (4) 434 (7)	691 (3) 51,674 (5) 291 (8)	239,887
Utilities	38,813	2 (5) 286 (7)	281 (8)	38,820
Special Services	15,532	175 (6)	187 (3)	15,520
Medical Supplies & Oxygen	77,452	-	2,168 (6)	75,284
Taxes and Insurance	63,483	184 (5) 428 (7)	24,954 (2) 257 (8)	38,884
Legal Fees	2,066	3 (7)	2,069 (5)	-

JOLLEY ACRES HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	Adjustments		Adjusted Totals
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	145,486	689 (7) 40,307 (9)	8,939 (1) 14,966 (5) 372 (8)	162,205
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Subtotal	1,705,186	50,857	120,303	1,635,740
Ancillary	57,074	-	-	57,074
Non-Allowable	233,946	8,939 (1) 24,954 (2) 5,798 (3) 68,733 (5) 1,993 (6) 2,183 (8)	2,847 (7) 40,307 (9)	303,392
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Operating Expenses	<u>\$1,996,206</u>	<u>\$163,457</u>	<u>\$163,457</u>	<u>\$1,996,206</u>
Total Patient Days	<u>21,024</u>	<u>-</u>	<u>-</u>	<u>21,024</u>
Total Beds	<u>60</u>			

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$24,798	
	Other Equity	11,748	
	Nonallowable	8,939	
	Fixed Assets		\$36,546
	Cost of Capital		8,939
	To adjust fixed assets and related depreciation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
2	Nonallowable	24,954	
	Taxes and Insurance		24,954
	To adjust liability insurance expense		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
3	Medical Records	1,025	
	Nonallowable	5,798	
	Nursing		3,721
	Restorative		1,224
	Dietary		501
	Laundry		170
	Housekeeping		240
	Maintenance		89
	Administration		691
	Special Services		187
	To adjust fringe benefits and related allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
4	Medical Records	6,317	
	Restorative		6,317
	To reclassify salaries to the proper cost center		
	HIM-15-1, Section 2304		
	DH&HS Expense Crosswalk		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Utilities	2	
	Taxes and Insurance	184	
	Nonallowable	68,733	
	Maintenance		210
	Administration		51,674
	Legal		2,069
	Cost of Capital		14,966
	To adjust home office cost allocation		
	HIM-15-1, Section 2304		
	State Plan, Attachment 4.19D		
6	Special Services	175	
	Nonallowable	1,993	
	Medical Supplies		2,168
	To remove special (ancillary) services		
	reimbursed by Medicare		
	State Plan, Attachment 4.19D		
7	Laundry	275	
	Housekeeping	414	
	Maintenance	318	
	Administration	434	
	Legal	3	
	Utilities	286	
	Taxes and Insurance	428	
	Cost of Capital	689	
	Nonallowable		2,847
	To reverse DH&HS adjustment to remove		
	indirect cost applicable to a		
	non-reimbursable cost center		
	HIM-15-1, Section 2102.3		
	State Plan, Attachment 4.19D		

JOLLEY ACRES HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
8	Nonallowable	2,183	
	Laundry		268
	Housekeeping		405
	Maintenance		309
	Administration		291
	Utilities		281
	Taxes and Insurance		257
	Cost of Capital		372
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Cost of Capital	40,307	
	Nonallowable		40,307
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$200,003</u>	<u>\$200,003</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

JOLLEY ACRES HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3156</u>	<u>2.3156</u>	
Deemed Asset Value (Per Bed)	36,165	36,165	
Number of Beds	<u>40</u>	<u>20</u>	
Deemed Asset Value	1,446,600	723,300	
Improvements Since 1981	268,334	46,635	
Accumulated Depreciation at 9/30/99	<u>(471,298)</u>	<u>(96,143)</u>	
Deemed Depreciated Value	1,243,636	673,792	
Market Rate of Return	<u>.060</u>	<u>.060</u>	
Total Annual Return	74,618	40,428	
Return Applicable to Non-Reimbursable Cost Centers	(724)	(11)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>126</u>	<u>2</u>	
Allowable Annual Return	74,020	40,419	
Depreciation Expense	25,225	23,546	
Amortization Expense	275	618	
Capital Related Income Offsets	(1,017)	(509)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(364)</u>	<u>(8)</u>	<u>Total</u>
Allowable Cost of Capital Expense	98,139	64,066	\$162,205
Total Patient Days (Minimum 96% Occupancy)	<u>14,016</u>	<u>7,008</u>	<u>21,024</u>
Cost of Capital Per Diem	\$ <u>7.00</u>	\$ <u>9.14</u>	\$ <u>7.72</u>

JOLLEY ACRES HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-JOL-J9

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$2.19	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>6.18</u>	\$ <u>9.14</u>
Reimbursable Cost of Capital Per Diem		\$7.17
Cost of Capital Per Diem		<u>7.72</u>
Cost of Capital Per Diem Limitation		\$ <u>(.55)</u>

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